

Minnesota Housing Finance Agency

*Schedule of Expenditures of Federal
Awards for the Year Ended June 30, 2004
and Independent Auditors' Reports*

MINNESOTA HOUSING FINANCE AGENCY

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Minnesota
Housing Finance Agency
Saint Paul, Minnesota

We have audited the basic financial statements of Minnesota Housing Finance Agency ("MHFA") as of and for the year ended June 30, 2004 and have issued our report thereon dated August 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

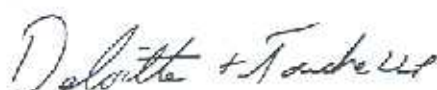
Compliance:

As part of obtaining reasonable assurance about whether MHFA's financial statements are free of material misstatement, we performed tests of MHFA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered MHFA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Board of Directors, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



August 23, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Members of the Minnesota
Housing Finance Agency
Saint Paul, Minnesota

Compliance:

We have audited the compliance of Minnesota Housing Finance Agency ("MHFA") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. MHFA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MHFA's management. Our responsibility is to express an opinion on MHFA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MHFA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MHFA's compliance with those requirements.

In our opinion, MHFA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Items 04-1 and 04-2.

Internal Control Over Compliance:

The management of MHFA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MHFA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of MHFA's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving MIIFA's internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards:

We have audited the basic financial statements of MHFA as of and for the year ended June 30, 2004, and have issued our report thereon dated August 23, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of MIIFA. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Board of Directors, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

August 23, 2004

MINNESOTA HOUSING FINANCE AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

| Federal Agency/Program Name | Federal CFDA Number | Expenditures |
|--|---------------------------|-----------------------|
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | |
| Direct programs: | | |
| Interest Reduction Payments— | | |
| Rental and Cooperative Housing for Lower Income Families | 14.103 | \$ 1,582,830 |
| Housing Assistance Payments Program for Low Income Families (MHFA Portfolio) | 14.182 | 73,319,131 |
| Housing Assistance Payments Program for Low Income Families (Contract Administration Portfolio) | 14.182 | 68,447,909 |
| FA and FAF under the McKinney Act Refunding Agreements | 14.182 | 2,887,897 |
| HOME Investment Partnerships Program | 14.239 | 10,247,060 |
| Housing Opportunities for Persons with AIDS—MHFA Program | 14.241 | 101,978 |
| Economic Development Initiative—Special Grant Program | 14.246 | 50,798 |
| Passed through City of Minneapolis, Minnesota— | | |
| Housing Opportunities for Persons with AIDS—Minneapolis Program | 14.241 | 686,428 |
| Total U.S. Department of Housing and Urban Development | | <u>157,324,031</u> |
| Total Expenditures of Federal Awards | | <u>\$ 157,324,031</u> |

See notes to the schedule of expenditures of federal awards.

MINNESOTA HOUSING FINANCE AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Minnesota Housing Finance Agency ("MHFA") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, MHFA's basic financial statements.

MHFA is a component unit of the State of Minnesota as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an Amendment of GASB Statement No. 14.

2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, MHFA provided federal awards to subrecipients as follows:

| Federal Programs | Federal CFDA Numbers | Amount Provided to Subrecipients |
|--|----------------------------|--|
| U.S. Department of Housing and Urban Development: | | |
| Interest Reduction Payments—Rental and Cooperative Housing for Lower Income Families | 14.103 | \$ 227,152 |
| Housing Assistance Payments Program for Low Income Families (MHFA Portfolio) | 14.182 | 9,864,893 |
| Housing Assistance Payments Program for Low Income Families (Contract Administration Portfolio) | 14.182 | 23,014,039 |
| HOME Investment Partnerships Program | 14.239 | 4,192,276 |
| Housing Opportunities for Persons with AIDS* | 14.241 | 683,158 |
| Housing Opportunities for Persons with AIDS | 14.241 | 101,978 |
| Economic Development Initiative—Special Grant Program | 14.246 | 50,798 |

*Funds received as subrecipient. The City of Minneapolis is the pass-through entity.

3. RECONCILIATION TO FINANCIAL STATEMENTS

The reconciliation of the schedule of expenditures of federal awards to MHFA's basic financial statements as of June 30, 2004 is as follows:

| | |
|---|-----------------------|
| Total federal awards per the schedule of expenditures of federal awards | \$ 157,324,031 |
| Section 236 and Section 8 payments made to HUD | (2,755,169) |
| Financing adjustment and financing adjustment factors 50% share disbursed to U.S. Department of Housing and Urban Development under various McKinney Act Refunding Agreements | 1,635,530 |
| Unused funds returned by recipients | 251,261 |
| Difference due to timing of recognition of expenditures under the cash basis versus the accrual basis of accounting | <u>(70,982)</u> |
| Total federal appropriations disbursed per Federal Appropriated Fund of the Minnesota Housing Finance Agency | <u>\$ 156,384,671</u> |

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MINNESOTA HOUSING FINANCE AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2004

PART I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- A. Type of auditors' report issued - unqualified.
- B. Internal control over financial reporting:
- Material weaknesses identified? ☐ yes ☒ no
 - Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ N/A
- C. Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

- D. Internal control over major programs:
- Material weaknesses identified? ☐ yes ☒ no
 - Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ N/A
- E. Type of auditor's report issued on compliance for major programs - unqualified.
- F. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? ☒ yes ☐ no
- G. Identification of major programs:

| Name of Federal Program | CFDA Number |
|---|-------------|
| Housing Assistance Payments Program for Low Income Families (MIIFA Portfolio) | 14.182 |
| Housing Assistance Payments Program for Low Income Families (Contract Administration Portfolio) | 14.182 |
| HOME Investment Partnerships Program | 14.239 |

- H. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
- I. Auditee qualified as low-risk auditee? ☒ yes ☐ no

PART II—FINANCIAL STATEMENT FINDINGS

No matters were noted.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--|---|
| Finding No. | 04-1 |
| CFDA No. | 14.182 |
| CFDA Title: | Housing Assistance Payments Program for Low Income Families (Contract Administration Portfolio) |
| Federal Agency: | U.S. Department of Housing and Urban Development |
| Questioned costs: | Undeterminable |
| Criteria or specific requirement: | Other |

Condition:

The Minnesota Housing Finance Agency ("MHFA" or the "Agency") Contract Administration program for the period commencing July 1, 2003 and concluding June 30, 2004 was reviewed by program auditors from the United States Department of Housing and Urban Development ("HUD"). No material findings were identified as a result of HUD's review which would jeopardize the Agency's eligibility to participate in the Contract Administration program. The findings noted were: failing to detail the appeal process in transmittal letters for files with below satisfactory ratings, providing rent increases sooner than permitted in Notice 97-14, and accepting certifications that exigent health and safety items were corrected from other than the property owner. Several other observations of lesser importance were noted. The Agency must address within 30 days the findings and observations included in HUD's letter dated August 18, 2004.

Effect:

HUD's review concluded that there were minor instances of noncompliance related to the Contract Administration program.

Recommendation:

MHFA should develop a corrective action plan to address the findings and observations listed in HUD's letter and provide the corrective action plan to HUD no later than September 13, 2004, and also provide a copy to the Agency's independent auditors.

| | |
|-----------------------------------|--|
| Finding No. | 04-2 |
| CFDA No. | 14.239 |
| CFDA Title: | HOME Investment Partnerships Program |
| Federal Agency: | U.S. Department of Housing and Urban Development |
| Questioned costs: | Undeterminable |
| Criteria or specific requirement: | Procurement and Suspension and Debarment |

Condition:

Seven out of 25 files tested did not include the proper Procurement and Suspension and Debarment forms. All seven files related to the Minnesota Urban Rural Homestead Program.

Effect:

The project receiving funds may not be in compliance with the requirements as defined in 24 CFR 92.350.

Recommendation:

MHFA should properly follow the policies and procedures in place to ensure that all contracting and subawards with parties include the proper forms.